

INSTRUCTIONS FOR THE PREPARATION OF
ALABAMA DEPARTMENT OF REVENUE
Alabama S Corporation
Shareholder's Statement of Income & Deductions

2003

Instructions To S Corporation

SHAREHOLDER INFORMATION. In the space provided, enter the shareholder's social security number or federal employer identification number, name, and address. Also indicate the resident status and the percentage of share-days of this shareholder during the corporation's tax year.

S CORPORATION INFORMATION. In the space provided, enter the corporation's federal employer identification number, name, and address. If the corporation has activities in any state other than Alabama, also indicate the Alabama apportionment ratio.

Lines 1 through 9a. Enter this shareholder's distributive share of income, loss, deduction, and credit attributed to Alabama. For example, if the corporation has non-separately stated income of \$100,000 and its Alabama apportionment ratio is 10%, the income attributed to Alabama is \$10,000. If the shareholder's percentage of share-days ownership is 10%, the amount to be entered on line 1 is 10% of \$10,000 or \$1,000. This same procedure is used to determine the amounts to be entered on lines 2, 4, 6, 8, and 9a, if appropriate. Each recognized built-in gain item and each passive investment income item is reduced by its proportionate share of the built-in gains tax and excess net passive income tax respectively before entering on the Schedule K-1.

Line 9b. Enter the amount of composite payment made to Alabama by the corporation on behalf of this shareholder only if this shareholder is a **nonresident**.

Line 11. See instructions for lines 1 through 9a.

Line 12. Enter this shareholder's pro rata share of the total §179 expense. Attach a statement of this shareholder's share of each appropriate item of information in Section A, Part 1, of the corporation's Federal Form 4562.

Line 13a. Include on this line the interest expense allocable to debt on property held for investment purposes.

Lines 13b and 13c. Enter on line 13b only the investment income included on line 3 above. Enter on line 13c only the investment expenses included on line 3 above.

Line 14. Enter total distributions made to this shareholder other than dividends reported on Form 99-DIV. Noncash distribution of appreciated property is valued at fair market value.

Line 15. Enter the amount of loan repayments made by the corporation to this shareholder.

Line 16. Enter this shareholder's basis in the S corporation.

If this shareholder is not a resident of Alabama, an Alabama Schedule NRA must be completed and submitted with this schedule and Form 20S if one has not been previously filed. If the Alabama Schedule NRA is not submitted for a nonresident shareholder, the corporation must complete Form 20SC, Nonresident Composite Payment Return and Extension, on behalf of that shareholder and pay to the State an amount equal to the highest income tax rate applicable to individuals (five percent) multiplied by the shareholder's pro rata share of income allocated and apportioned to this State.

Two copies of this schedule shall be distributed to the shareholder and a copy attached to Form 20S. An additional copy shall be maintained with the corporation's books and records. Form 20S will be considered incomplete if Schedule K-1's are not properly completed and attached to Form 20S.

Instructions To Shareholder

The amounts shown on lines 7, 8, 9a, 9b, 11, and 12 of Schedule K-1 should be entered on the appropriate lines of your 2002 Alabama income tax return (Form 40 for residents and 40NR for nonresidents). If the sum of the separately stated and nonseparately stated items of income, loss, and deduction is a net loss, the net loss to be deducted on the Alabama individual return may not exceed the shareholder's Alabama adjusted basis in the stock of the Alabama S corporation, plus the shareholder's Alabama adjusted basis in any indebtedness of the Alabama S corporation to the shareholder. See Rule 810-3-162-.01(3).

Line 7. Net Distributive Share of Income/Loss. The amount shown on line 7 should be entered on Form 40 or 40NR, Schedule E.

Line 8. Contributions. The amount shown on line 8 should be added to any other contributions the shareholder made, and the total should be entered on Schedule A. See the instructions for Schedule A, Form 40 or Form 40NR, for further information.

Line 9a. Income Taxes Paid to U.S. The amount shown on line 9a should be included in the Federal Income Tax deduction claimed on Form 40 or Form 40NR. See the instructions for Form 40 or Form 40NR for further information.

Line 9b. Composite Payment Made by S Corporation. The amount shown on line 9b should be claimed by nonresidents as an estimated payment on the Form 40NR, page 1, line 24. If a nonresident shareholder claims a composite payment, a Schedule K-1 must be attached to Form 40NR.

Line 11. Casualty Losses. The amount shown on line 11 may be claimed as an itemized deduction on Schedule A, Form 40 or Form 40NR if such amount exceeds 10% of your adjusted gross income. Federal Form 4684 must be attached to individual returns. See the instructions for Schedule A for further information.

Line 12. I.R.C. Section 179 Expense. The §179 expense deduction is limited to \$100,000 for 2003, 2004 and 2005 per individual. When completing Section A, Part 1, of the Federal Form 4562, use the information provided by the S corporation along with information from other sources. The §179 expense deduction information will be provided on a separate schedule for each shareholder. This will allow for the determination of the allowable deduction using Alabama income (loss). Enter this figure as a negative amount on Form 40 or Form 40NR, page 2, Part 1, "other income" line. This allowable amount (or portion thereof) is allowable only if it has not been included elsewhere on the return.

Line 13a. Interest Expense on Investment Debts. The amount shown on line 13a should be added to investment interest expense from other sources and entered on Form 4952A to determine how much of your total investment interest is deductible.

Lines 13b and 13c. Investment Income and Investment Expenses. Investment income and investment expenses on these lines should be combined with investment income and investment expenses from other sources and entered on Form 4952A.

Line 14. Distributions. Reduce your basis in stock of the corporation by the distributions on this line. If these distributions exceed your basis, the excess is treated as gain on investment and is reported on Schedule D, Form 40 or 40NR.

Line 15. Amount of Loan Repayments to Shareholders. If these payments are made on indebtedness with a reduced basis, the repayments result in income to you to the extent the repayments are more than the adjusted basis of the loan. See §§40-18-164 and 40-18-173, **Code of Alabama 1975** and IRS Revenue Ruling 64-162, 1964-1 (Part 1) C.B. 304.

Line 16. Basis. This is your basis in the Alabama S corporation.